

Third Quarterly Report **2007**



Espco Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8299)

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This report, for which the directors (the “Directors”) of Espco Technology Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

1. The Group has recorded an unaudited turnover of approximately HK\$217,579,000 for the nine months ended 31 December 2007.
2. The Group has recorded an unaudited profit attributable to shareholders of approximately HK\$641,000 for the nine months ended 31 December 2007.

TO ALL SHAREHOLDERS,

The board of Directors (the "Board") of the Company announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the nine months ended 31 December 2007, together with the comparative unaudited figures for the corresponding period in 2006 (the "Corresponding Period"), as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	(Unaudited) Nine months ended		(Unaudited) Three months ended	
		31 December		31 December	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Revenue	2	217,579	220,027	48,827	34,307
Cost of sales		(203,581)	(203,104)	(45,203)	(28,762)
Gross profit		13,998	16,923	3,624	5,545
Other income		200	622	85	299
Selling and distribution expenses		(3,767)	(495)	(188)	(122)
Administrative expenses		(9,741)	(9,828)	(3,450)	(3,490)
Operating profit	4	690	7,222	71	2,232
Finance costs	5	(510)	(382)	(42)	(97)
Profit before taxation		180	6,840	29	2,135
Taxation	6	461	(618)	(53)	(101)
Profit/(Loss) attributable to shareholders		641	6,222	(24)	2,034
Dividends	7	–	–	–	–
Earnings/(Loss) per share	8	HK Cents	HK Cents	HK Cents	HK Cents
Basic		0.018	0.174	(0.001)	0.057

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 31 December 2007

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the disclosure requirements of the GEM Listing Rules. The accounting policies adopted in preparing the unaudited condensed consolidated financial statements are consistent with those followed in the annual financial statements for the year ended 31 March 2007.

2. REVENUE

The Group is principally engaged in the design, manufacture and distribution of desktop personal computer ("PC") components. Revenue, which is also the Group's turnover, represents the aggregate of amounts received and receivable for goods sold and services rendered, net of returns, by the Group to outsider customers during the periods and is analysed as follows:

	(Unaudited)		(Unaudited)	
	Nine months ended		Three months ended	
	31 December		31 December	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of own-manufactured goods at invoiced value, net of returns and discounts	184,286	156,348	46,041	21,959
Trading of PC components	22,094	50,963	1,138	7,823
Processing fee income	8,008	12,716	1,263	4,525
Handling income	3,191	–	385	–
	217,579	220,027	48,827	34,307

3. SEGMENTAL INFORMATION

Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

No segment information by business segment is presented as the Group primarily operates in a single business segment which is the manufacturing and distribution of desktop PC components throughout the periods.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

Secondary reporting format – geographical segments

	(Unaudited)		(Unaudited)	
	Nine months ended		Three months ended	
	31 December		31 December	
	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue by location of customers				
PRC, excluding Hong Kong and Taiwan	93,618	116,801	19,598	13,003
Taiwan	75,458	6,681	20,671	125
Hong Kong	12,685	61,649	633	8,790
Singapore	6,581	10,325	2,063	2,639
Australia	1,404	3,071	262	1,016
Other Asia-Pacific regions	21,983	17,284	5,354	6,762
Europe	2,584	3,467	246	1,688
Other regions	3,266	749	–	284
	217,579	220,027	48,827	34,307

4. OPERATING PROFIT

Operating profit is stated after charging the following:

	(Unaudited)		(Unaudited)	
	Nine months ended		Three months ended	
	31 December		31 December	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of inventories sold	203,581	195,549	45,203	26,445
Amortization of land lease premium	25	24	8	8
Depreciation	2,561	2,796	887	948
Operating lease rentals in respect of land and buildings	702	466	316	156
Impairment loss recognized in respect of trade and other receivables	3,062	–	–	–
Research and development cost	849	788	334	271
Staff costs including directors' emoluments	10,998	9,803	3,341	3,236

5. FINANCE COSTS

Finance costs represent the interest on bank loans and overdrafts.

6. TAXATION

	(Unaudited)		(Unaudited)	
	Nine months ended		Three months ended	
	31 December		31 December	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong profits tax	45	650	45	140
Overseas taxation	21	41	(5)	12
	66	691	40	152
Deferred tax	(527)	(73)	13	(51)
Taxation (credit)/charge for the period	(461)	618	53	101

Hong Kong profits tax is calculated at the rate of 17.5% (nine months ended 31 December 2006: 17.5%) on the estimated assessable profits arising in or derived from Hong Kong for the period.

Overseas taxation represents tax charges on the estimated assessable profits of subsidiaries operating overseas including the PRC, calculated at rates applicable in the respective jurisdictions for the period.

易盈電腦(深圳)有限公司 (“Espco Shenzhen”), being a foreign investment enterprise established in Shenzhen Special Economic Zone in the PRC, is subject to the preferential foreign enterprise income tax (“FEIT”) of 15% on its assessable profit. In accordance with the relevant income tax laws and regulations in the PRC, Espco Shenzhen is exempted from FEIT for two years commencing from its first profit-making year of operation after offsetting prior year tax losses, followed by a 50% reduction in tax rate for the following three years. Espco Shenzhen's first profit-making year started in 2001.

SPI Distribution Macao Commercial Offshore Limited ("Espco Macau") has been registered as an "Offshore Commercial Services Institution" with the Macao Trade and Investment Promotion Institute. In accordance with the Macao Special Administrative Region's Offshore Law, Espco Macau is exempted from Macau income tax derived from its offshore business.

7. DIVIDENDS

The Board does not recommend the payment of any dividend for the nine months ended 31 December 2007 (nine months ended 31 December 2006: Nil).

8. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share for the nine months and three months ended 31 December 2007 are calculated based on the unaudited consolidated profit attributable to shareholders of HK\$641,000 and loss of HK\$24,000 respectively (nine months and three months ended 31 December 2006: profit of HK\$6,222,000 and HK\$2,034,000 respectively) and on the weighted average number of 3,571,362,000 (nine months and three months ended 31 December 2006: 3,571,362,000) ordinary shares of the Company in issue during the periods (Note).

Dilutive earnings per share amounts have not been presented as the Company did not have any dilutive potential ordinary shares during the periods.

Note: Each issued and non-issued shares of the Company of HK\$0.01 each was sub-divided into 10 shares of HK\$0.001 each with effective on 12 November 2007.

9. MOVEMENT OF RESERVES

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Revaluation reserve HK\$'000	Statutory surplus reserve HK\$'000	Statutory welfare fund HK\$'000	Statutory general reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Nine months ended 31 December 2007 (Unaudited)									
At 1 April 2007	18,972	1,294	13,463	7,748	325	162	485	39,682	82,131
Exchange differences arising from translation of financial statements of overseas subsidiaries	-	875	-	-	-	-	-	-	875
Profit for the period	-	-	-	-	-	-	-	641	641
Dividends-2007 final	-	-	-	-	-	-	-	(1,393)	(1,393)
At 31 December 2007	18,972	2,169	13,463	7,748	325	162	485	38,930	82,254
Nine months ended 31 December 2006 (Unaudited)									
At 1 April 2006	18,972	(59)	13,463	6,600	325	162	485	39,211	79,159
Exchange differences arising from translation of financial statements of overseas subsidiaries	-	2,223	-	-	-	-	-	-	2,223
Profit for the period	-	-	-	-	-	-	-	6,222	6,222
Dividend-2006 final	-	-	-	-	-	-	-	(3,214)	(3,214)
At 31 December 2006	18,972	2,164	13,463	6,600	325	162	485	42,219	84,390

FINANCIAL REVIEW

The Group's turnover for the nine months ended 31 December 2007 amounted to approximately HK\$217,579,000, representing a decrease of 1.1% from that of approximately HK\$220,027,000 in the Corresponding Period. Due to keen competition during the period, the Group's overall gross profit margin for the nine months ended 31 December 2007 decreased to 6.43% from 7.69% in the Corresponding Period. The Group is principally engaged in the manufacture, sale and distribution of desktop PC display cards in the PRC, Hong Kong, Macau and Singapore. As for sale and production of desktop PC display cards, the competition is intensifying where Asian Pacific countries were under the fiercest competition, causing the Group's business earning to drop.

In addition, profit attributable to shareholders for the nine months ended 31 December 2007 amounted to approximately HK\$ 641,000, representing a decrease of 90% from that of HK\$ 6,222,000 in the Corresponding Period. This is mainly attributed to an impairment of the trade receivables of the Group of HK\$ 3,062,000 for the six months ended 30 September 2007.

BUSINESS REVIEW AND PROSPECT

As for the display card business, in addition to exploring new market, the Group will strive to strengthen its cost control as well as actively expand its processing service and promote its own brand name "EAGLE" with the aim to enhance profit. Moreover, the Group will also explore new investment projects to expand income sources. As such, the Group entered into an acquisition agreement on 6 November 2007, pursuant to which it agreed conditionally to acquire a group principally engaged in mining and exploration of precious metal and mineral resources in the PRC. The details of the acquisition were set out in the announcement of the Group dated 18 December 2007. The Group expects that, after the completion of the relevant acquisition, the new business will bring stable revenue to the Group.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the sole shareholder of the Company dated 6 September 2004, the Company has conditionally adopted the share option scheme (the "Share Option Scheme") under which share options to subscribe for the Company's shares may be granted under the terms and conditions stipulated therein. The principal terms of the Share Option Scheme are summarised in the paragraph headed "Share Option Scheme" in Appendix 5 to the prospectus of the Company dated 14 September 2004. As at 31 December 2007, no share option was granted under the Share Option Scheme.

DIRECTORS' AND EMPLOYEES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the share options that may be granted under the Share Option Scheme, none of the Directors or employees of the Group or their respective associates were granted by the Company or its subsidiaries the rights to acquire shares or debentures of the Company or any other body corporate, or had exercised any such rights as at 31 December 2007.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long positions in shares of the Company

Name of Director	Nature of interest	Number and class of securities	Approximate% of the issued share capital of the Company
Mr. Chan Hing Yin	Interest in a controlled corporation	2,499,922,000 ordinary shares of HK\$0.001 each (<i>Note</i>)	70%

Note: These shares are held by Osborne Pacific Limited ("Osborne") which is wholly and beneficially owned by Mr. Chan Hing Yin.

Save as disclosed above, as at 31 December 2007, none of the Directors or chief executives of the Company had any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

PERSONS WHO HAVE AN INTEREST OR A SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDING

So far as is known to any Director or chief executive of the Company, as at 31 December 2007, the following person (other than the Directors and chief executives of the Company whose interests are set out in the section "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above) had an interest or a short position in the shares or underlying shares of the Company which were recorded in the register required to be kept under Section 336 of the SFO.

Long positions in shares of the Company

Name of shareholder	Nature of interest	Number and class of securities	Approximate% of the issued share capital of the Company
Osborne Pacific Limited	Beneficial owner	2,499,922,000 ordinary shares of HK\$0.001 each (<i>Note 1</i>)	70%
Chan, Selma (<i>Note 2</i>)	Family interest of controlled corporation	2,499,922,000 ordinary shares of HK\$0.001 each (<i>Note 2</i>)	70%
SSC Mandarin Holdings Limited ("SSC Mandarin")	Beneficial owner	6,758,400,000 ordinary shares of HK\$0.001 each (<i>Note 3</i>)	189.2%
Harreld International Limited ("Harreld")	Interest of a controlled corporation	6,758,400,000 ordinary shares of HK\$0.001 each (<i>Note 4</i>)	189.2%
Mr. Lee Sing Leung, Robin ("Mr. Lee")	Interest of a controlled corporation	6,758,400,000 ordinary shares of HK\$0.001 each (<i>Note 4</i>)	189.2%

Notes:

1. These shares are held by Osborne which is wholly and beneficially owned by Mr. Chan Hing Yin.
2. These were the same shares held by Osborne. As Mrs. Chan, Selma is the spouse of Mr. Chan Hing Yin, she is deemed to have interests in the shares held by Osborne, which is wholly and beneficially owned by Mr. Chan Hing Yin.
3. The Company, on 6 November 2007, entered into a conditional agreement with the SSC Mandarin, pursuant to which, among other things, the Company conditionally agreed to purchase and SSC Mandarin conditionally agreed to dispose of the entire issued share capital of SSC Mandarin Mining Investment Limited (the "Acquisition") for an aggregate consideration of HK\$1,212,000,000, which will be satisfied as to (i) HK\$60,000,000 in cash; (ii) HK\$207,360,000 by the issue of the 1,382,400,000 ordinary shares of the Company ("Shares") at an issue price of HK\$0.15; (iii) HK\$806,400,000 by the issue of the convertible bonds; and (iv) HK\$138,240,000 by the issue of the promissory notes. Subject to the terms and conditions of the agreement pursuant to which the convertible bonds are to be issued, the maximum number of Shares that the convertible bonds can be converted at an conversion price of HK\$0.15 is 5,376,000,000. Therefore, by virtue of the SFO, SSC Mandarin was deemed to be interested in 6,758,400,000 Shares even though the Acquisition is subject to the approval of the shareholders of the Company at an extraordinary general meeting and the 6,758,400,000 Shares have not yet been issued.
4. Each of Harreld and Mr. Lee was deemed (by virtue of the SFO) to be interested in the 6,758,400,000 Shares, which SSC Mandarin was deemed to be interested in (see note 3 above), for SSC Mandarin was 41% owned by Harreld and Harreld was 40.07% owned by Mr. Lee.

Save as disclosed above, as at 31 December 2007, the Company had not been notified of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which were required to be kept under Section 336 of the SFO.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group during the nine months ended 31 December 2007.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the nine months ended 31 December 2007, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the shares of the Company.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of the Directors, all Directors have confirmed that they had complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules during the nine months ended 31 December 2007.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with the GEM Listing Rules.

The Audit Committee provides a link between the Board and the Company's external auditors in matters falling within the scope of the Group's audit, reviews the Company's annual report, half-yearly report and quarterly reports and provides advice and comments thereon to the Board, supervises the financial reporting process and internal control procedures of the Group and, monitors relationship with the Company's external auditors. The Audit Committee comprises all the three independent non-executive Directors, namely, Ms. Chan Yi Man, Magdalen, Mr. Wong Ka Hung, Frederic and Mr. Cheung Wing Ping, who is the chairman of the Audit Committee.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the unaudited condensed consolidated financial statements for the nine months ended 31 December 2007.

By order of the Board

Espco Technology Holdings Limited

Chan Hing Yin

Chairman

Hong Kong, 26 January 2008

As at the date of this report, the executive Directors of the Company are Mr. Chan Hing Yin and Mr. Chan Hing Kai, and the independent non-executive Directors of the Company are Ms. Chan Yi Man, Magdalen, Mr. Cheung Wing Ping and Mr. Wong Ka Hung, Frederic.